WASHINGTON HIGHER EDUCATION COORDINATING BOARD

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Modeling the Lost Benefits to Taxpayers of Proposed Cuts to Washington Student Financial Aid Programs

Background information on RAND study

This policy brief uses RAND's model to estimate what cuts to the State Need Grant and State Work Study programs in Washington would mean in terms of lost "net benefits" to taxpayers.

The calculations used in this policy brief are based upon the 2009 RAND Corporation study, "The Benefits to Taxpayers from Increases in Students' Educational Attainment,"[1] and estimate how increases in students' levels of attainment affect:

- federal, state, and local tax revenues;

- program expenditures and revenues for a range of social support and insurance programs, (including Social Security, Medicaid, Unemployment Insurance, welfare programs, subsidized housing, food stamps, and Supplemental Security Income); and

- spending for state and local prisons and jails.

The RAND study used national-level data to quantify the cumulative net value of benefits over a person's lifetime by educational attainment levels (less than high school graduate, high school graduate, some college, bachelor's degree) after subtracting out the cost of providing that additional education. The data are also analyzed by gender and race/ethnicity.

Applying the RAND model to proposed cuts to the State Work Study and other financial aid programs

When the foregone net benefits to taxpayers quantified in the RAND study are applied to the numbers of students likely to be impacted by the Governor's proposed cuts to the State Work Study and other financial aid programs ("Book 2" cuts), the findings show that **taxpayers are likely to lose more in the long run as students discontinue their education due to inadequate financial aid**.

The proposed cuts—while a short-term solution to an immediate problem—may also have a long-term effect on the state's ability to meet the strategic goals outlined in the *2008 Strategic Master Plan for Higher Education*.[2]

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[1] Carroll, S. J. and Erkut, E. (2009), "The Benefits to Taxpayers from Increases in Students' Educational Attainment," Santa Monica, California: RAND Corporation. Available for download at http://www.rand.org/pubs/monographs/MG686/.

Key assumptions and caveats include

- The analysis presents the savings and foregone benefits based on a one-year cut to SNG. If the cuts are implemented for a second year, the same taxpayer loses double with a new group of students who fail to complete their education due to insufficient grant support, and so on for each succeeding year the cuts are in effect.

- The 62 percent of CTC students who were sophomore State Work Study recipients were excluded from the calculation. There are no foregone benefits to taxpayers of CTC sophomores who lose their aid since they are part of the "some college" category and remain there after the cut.

- It is assumed that 15 percent of CTC State Work Study recipients would have gone on to receive a bachelor's degree but remained at their current level as a result. This percentage is comparable to current transfer rates for this population.

- The proposed cuts to the GEAR UP and GET Ready for Math and Science programs were not modeled in the analysis.

- State Work Study is available to graduate students, and the impact of graduate students not completing their degree was not modeled in the analysis.

Results of the analysis

Book 2 Cuts (includes State Work Study)		Present Value of Foregone Benefits to Taxpayer (2009 dollars)					
# of Affected Students	Immediate Savings to Taxpayer	(5% Stop-out)	(10% Stop-out)	(15% Stop-out)	(20% Stop-out)	(25% Stop-out)	(35% Stop-out)
10,668	$32M	$45M	$91M	$137M	$182M	$228M	$319M

The analysis shows that if the actual percentage of students who stop-out is above three percent, the taxpayer suffers long-term losses in excess of the short-term benefit. Put another way, the taxpayer is worse off if more than three out of every 100 students fail to attain the next highest level of education as a result of losing their financial aid.

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[2] See http://www.hecb.wa.gov/research/masterplans/masterplansindex.asp.